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Committee on Trade and Development

TRADE PROBLEMS RELATING TO VEGETABLE OILS AND OILSEEDS

Note by the Secretariat

Introduction

1. Discussions concerning possible trade liberalization measures for vegetable oilseeds, oils and oilcake have taken place in various GATT bodies in recent years. It is recalled that in February 1969, the Committee on Trade and Development agreed to request the Special Group on Trade in Tropical Products to take up, on a priority basis, outstanding problems relating to groundnut oil and other vegetable oils of particular export interest to developing countries. The Special Group in May 1969 agreed that, as this group of products was one of the eight commodity sectors selected by the Agriculture Committee for thorough examination, the attention of that Committee should be drawn to the importance attached by contracting parties to an early examination of these issues.
2. Proposals by Nigeria and Ceylon (COM.AG/18 and Corr.1 and COM.AG/19) involving specific requests for removal of tariff and non-tariff barriers on certain items and machinery for tackling the problems were discussed in the Agriculture Committee at meetings in 1969 and 1970. Although there was some support for multilateral action towards the consideration of liberalization of trade in oils and oilseeds, a number of individual delegations at that time indicated certain problems which made it difficult to contemplate action on the specific proposals made by Nigeria and Ceylon. These included the possible adverse effects on domestic producers as well as substitution effects on certain outside suppliers, the need to maintain domestic production for reasons of security and crop rotation and the fact that quantitative restrictions on groundnuts in one country were connected with a support programme which involved domestic production controls.
3. With regard to the proposal for a standstill¹ put forward in the Agriculture Committee by the United States, certain difficulties were also envisaged. Although some delegations were in principle in favour of a standstill, they felt that they

¹"Whereas trade liberalization offers substantial potential for expansion of consumption and trade in oilseeds and products, with consequent benefits to producing and consuming countries, contracting parties hereby declare that as a preliminary step to this goal they shall, to the fullest extent possible - that is, except when compelling reasons which may include legal reasons, make it impossible - refrain from introducing or increasing the incidence of customs duties or non-tariff barriers on such products."

would have to reserve their position with regard to its duration, as they were to engage in negotiations in connexion with the enlargement of the European Economic Community. One delegate cited legal reasons as preventing his government from formally accepting the text, although his government could declare its intention not to change its present system of policy in this field.

4. It was agreed that it would be desirable to examine further the question of a standstill to see if agreement could be reached on a text or a series of declarations of intent which went in that direction. Delegations understood that the adoption of the standstill would not exclude the examination of possibilities for further action.

5. The following paragraphs summarize some recent discussions of the problem of trade in oilseeds and oils in various GATT bodies since the matter was last examined in the Agriculture Committee as well as certain recommendations made by the Group of Three in this field. Activities of UNCTAD and the FAO are also briefly referred to. For the full text of the statements made and the positions taken by individual delegations a reference to the document cited is invited.

6. The directives given to the Agriculture Committee by the Council in 1971 provide inter alia, that without prejudice to the right of any contracting party to invoke established GATT consultation procedures, the Committee should pursue, at any time, such opportunities as might arise for the settlement of particular trade problems.

Special Group on Trade in Tropical Products - October 1971 (SGTP/25)

7. Further discussions concerning oilseeds, oils and oilcake took place at the October 1971 meeting of the Special Group on Trade in Tropical Products when representatives of developing countries considered that, despite the many difficulties pointed out by developed countries, measures could be taken on an ad hoc basis in respect of tropical vegetable oils and oilseeds. These representatives also supported the recommendations on oils and oilseeds which were contained in the preliminary report of the Group of Three.

8. The representative of the United States said that his Government believed that multilateral action for trade liberalization on a most-favoured-nation basis was the best approach to resolving the problems of trade in vegetable oils and oilseeds. The United States was prepared to consider consulting in a proper forum with other developed countries to explore the possibility of taking concerted action to liberalize trade in vegetable oils on a most-favoured-nation basis. Pending such agreement as a long-term solution, the United States Government commended proposals for a standstill on fats and oils as a short-term solution and hoped other governments would agree to this measure.

9. The representative of the United Kingdom stated that his Government shared the concern of developing countries in this area. He informed the Group that his Government had been prepared to take action under the Generalized System of Preferences, but had withdrawn its offer because, in the absence of comparable offers by other donor countries, the interests of its Commonwealth partners and also of domestic processors would have been adversely affected. His Government was ready to continue the search for a multilateral solution to the problems of international trade in these products.

10. The representative of Japan, in referring to the removal by his Government of import restrictions on certain vegetable oils and oilseeds, stated that this action was consistent with Japan's continuing support for Part IV of GATT and that developing countries would derive considerable benefit from the liberalization measures.

11. The representative of the Commission of the European Communities observed that too much importance was attached to customs duties as an element of protection. He pointed out that the major share of international trade in oils and oilseeds was not held by the developing countries. Furthermore, Community imports of groundnut oil and palm-oil on which customs duties had been entirely eliminated with respect to the associated States and were still maintained vis-à-vis third countries, showed that while imports from the latter had increased between 1964 and 1970, over the same period there had been no increase in imports from the associated countries. These two considerations gave grounds for doubting the advantage for developing countries of a general abolition of customs duties on oils. On several occasions, the Community had drawn attention to the fact that the incidence of world market price fluctuations on the exports and earnings of developing countries was much greater than the incidence of customs duties. Accordingly, the intention of the Community was to conduct its fats and oils policy in such a way that there would be no distortion of competition in its market as between fats and vegetable oils of tropical origin. In a market with better stabilized world prices, questions pertaining to customs duties on oils could be re-examined.

12. The representatives of some developing countries welcomed the suggestions made by the representative of the United States. They hoped that governments could now accept the standstill as an interim measure and also expressed interest in the possibility of consultations among developed countries directed towards a liberalization of restrictions affecting oils and oilseeds.

Report of the Group of Three (L/3610)

13. In its report, the Group referred to the problem of tariff escalation on vegetable oils in relation to oilseeds. It noted that progress in this area would be beneficial to quite a substantial number of countries and expressed the opinion that this was an area where a major effort should be made.

14. The Group recommended that developed countries consider the possibility, as part of a concerted action, of eliminating (or reducing) the import duties on vegetable oils either within the context of the Generalized System of Preferences in favour of developing countries or in some other form of concerted action.

15. In this connexion, the Group remarked that during its second round of consultations with representatives of individual developed countries, a certain number of developed countries expressed their willingness to consider the possibility of taking part in concerted action in this field. In view of this relatively positive response, the Group felt that the matter should be examined preferably on the basis of a secretariat paper giving a brief analysis of the problem and describing the work already going on in other international organizations.

16. While awaiting the outcome of possible multilateral talks on this subject, the developed countries should accept a standstill by agreeing not to increase the margin of effective protection on vegetable oils in relation to seeds.

Committee on Trade and Development - November 1971 (L/3625)

17. During a preliminary discussion of the final Report of the Group of Three, comments were made concerning the recommendation on vegetable oils and concern was expressed at the continuing lack of action in GATT to deal with the problem of tariff escalation on vegetable oils. One representative pointed out that any action taken in this field or any future solutions adopted should apply likewise to vegetable oils produced by developing countries in the temperate zone.

18. With regard to the United States proposal in the Special Group on Trade in Tropical Products, the representative of a developing country proposed that developing countries should also be associated with any such consultations.

Twenty-seventh session of the CONTRACTING PARTIES

19. Discussions concerning the possibility of trade liberalization in the fields of vegetable oils and oilseeds centred around the recommendations contained in the Report of the Group of Three. Most representatives of developing countries supported all the recommendations and a number of these representatives referred specifically to vegetable oils. The representative of Senegal, in supporting the recommendations on vegetable oils, expressed concern over the high duties applied by developed countries on vegetable oils, the difference in production prices and the competition from oils originating in developed countries. He considered the problem was primarily one of price stability, especially at a more remunerative level. The problems were closely inter-related and it was hoped that concerted international action could remedy a situation that was alarming for a country like Senegal, 79 per cent of whose exports consisted of groundnuts and vegetable oils.

20. Representatives of a number of developed countries indicated that they were prepared to consider, as part of concerted action by developed countries, the general problem of tariff escalation for vegetable oilseeds, oils and oilcakes. The representative of the United States recalled his Government's willingness to consult with other developed countries to explore the possibilities for concerted action for the liberalization of trade in vegetable oils on a most-favoured-nation basis and proposed a standstill on fats and oils as a short-term measure.

21. The representative of the Commission of the European Communities indicated, inter alia, that with regard to temperate zone agricultural products, the Community's position largely corresponded to that of the Group of Three. At least partial solutions should be sought to individual urgent problems, in the form of arrangements involving co-operation in the administration of the instruments of agricultural policies. The success and operation of the arrangement concerning certain dairy products was a good example of such multilateral co-operation. The vegetable oils sector could well be the subject of multilateral consultations with a view to defining precisely the problems arising in the sector as a whole. The

Community was prepared to participate in such consultations with all the countries concerned. The basic problem for trade in those products was not so much one of access, in the customs sense of the term, as of stabilization of the international market.

22. The Chairman of the CONTRACTING PARTIES, in his summing-up on specific points concerning the trade of developing countries, referred to the recommendations made by the Group of Three. He stated that, as regards trade in tropical products, the proposals for consultations among all interested contracting parties, with a view to exploring the possibility of concerted action to liberalize trade in vegetable oils and oilseeds on a multilateral basis, should be pursued and the necessary initiative towards this end taken in the appropriate GATT body.

FAO

23. Trade liberalization was among the subjects discussed at the fifth session of the Study Group on Oilseeds, Oils and Fats which met in December 1970. As the GATT secretariat was undertaking broadly similar work on trade liberalization to that which the Special Session of the Study Group had asked the FAO Secretariat to prepare, the FAO decided not to duplicate these activities, but to ask the GATT to make its work available to the Study Group. The representative of GATT informed the Study Group of work in progress in the three main standing committees of GATT in connexion with tariff and non-tariff barriers to trade in these products.

24. While recognizing the considerable range of activity under way in the GATT, the Study Group took note that the FAO Council had agreed that the FAO had special competence in the investigation of the problems lying behind agricultural protection. The Group considered it important for the FAO Secretariat to continue its close collaboration with the GATT in the field of trade liberalization in fats, oils and oilcakes and invited the GATT secretariat to keep the Group informed of future progress in this connexion. The next meeting of the Study Group is scheduled for mid-February 1972.

25. During the discussions at the fifth session of the Study Group, a number of delegates reiterated the position taken at the Special Session and on previous occasions in favour of trade liberalization measures. They stressed the overall importance and beneficial impact of such measures on the market.

UNCTAD

26. At the sixth session of the Committee on Commodities in July 1971, representatives of some developing countries requested the UNCTAD to continue its work on oilseeds, oils and fats, especially on questions of trade liberalization and of agricultural adjustment measures in developed countries, in line with the responsibilities regarding oilseeds, oils and fats entrusted to UNCTAD in Resolution 16(II). They drew attention to the high tariffs imposed on processed and semi-processed products of oilseeds in a number of importing countries and noted that, with the exception of one or two countries, oilseed products had not been included in the preferential schemes being introduced in connexion with the implementation of the Generalized System of Preferences. These representatives hoped that oilseed products would be included in the schemes of all preference-giving countries.

27. At the eleventh session of the Trade and Development Board held during August-September 1971, representatives of several developing countries deplored the absence of international action to deal with the problem of the declining earnings of developing countries from exports of oilseeds, oils and fats. In outlining the secretariat's work programme with respect to oilseeds, oils and fats, the representative of the Secretary-General stated that these commodities would be included in the studies envisaged for the third session of the Conference in connexion with access to markets, pricing policy and implementation of Conference Resolution 16(II).